



June 28, 2022

CURRENT PRICE: **\$105.70**

RATING: **BUY**

PRICE TARGET: **\$110**

CURRENT YIELD: **3.7%**

EPS Estimates

	DEC 21A	DEC 22E
1Q	\$1.26	\$1.30A
2Q	\$1.16	\$1.14
3Q	\$1.88	\$1.98
4Q	\$0.94	\$1.03
	\$5.24	\$5.45

Trading Data

52-WEEK PRICE RANGE: **\$116.33-\$95.48**

SHARES OUTSTANDING: **770(M)**

MARKET CAP: **\$81,397(M)**

AVG. DAILY TRADING VOLUME: **2.9(M)**

S&P 500: **3,822**

Valuation Data

BOOK VALUE: **\$64.81**

PRICE TO BOOK: **1.63x**

DIVIDEND: **\$3.94**

Duke Energy (NYSE: DUK)

1Q22 Earnings & Renewable Generation

Highlights

- Adjusted diluted 1Q22 earnings of \$1.30/share vs. \$1.26/share
- Improvement from higher revenues & lower tax rate
- Increasing renewable energy generation assets
- Potential dividend increase in 2H22
- Maintain BUY rating & raising price target to \$110/share price target

Investment Thesis

Wall Street expects the US economy to rebound from the recent Covid-19 recession over the next year or two. While this is difficult to predict, we believe investors should consider investing in sectors where revenue streams are fairly predictable, with attractive dividend yields, low valuations, and earnings growth potential based on a resurgent US economy. One attractive sector is the utility group and one company in this area we like is Duke Energy. This utility pays an attractive 3.7% dividend yield, and offers dividend/earnings growth potential going forward. DUK is rated BUY and our price target is \$110/share.

Company Summary

Duke Energy, headquartered in Charlotte NC, is one of the largest energy providers in the US. The company is comprised of four business units; Electric Utilities/Infrastructure, Gas Utilities/Infrastructure, Commercial Renewables, and Other. DUK provides electricity and natural gas to its customers, serving approximately 8.2 million electric customers in NC, SC, FL, IN, OH, and KY. DUK operates 150,900 miles of electric distribution lines and a 20,900-mile transmission system. The company has approximately 50,000 megawatts (MW) of electrical generating capacity with its plants fueled by coal, oil, natural gas, hydroelectric, renewables, and nuclear. DUK merged with Progress Energy in 2014 creating one of the largest electric utilities in the US and acquired Piedmont Natural Gas in 2016. The gas unit provides natural gas to 1.6 million customers in KY, NC, OH, SC, & TN.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last two pages of this report.

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Recent Earnings

DUK reported 1Q22 operating earnings of \$1.08/share vs. \$1.25/share during 1Q21. The lower results came from lower segment income in the Electric Utilities & Infrastructure unit which included the impact of charges related to the Indiana Supreme Court ruling on DUK's coal ash disposal. When comparing the two quarters, overall revenues increased to \$7.13 billion from \$6.15 billion, operating expenses rose to \$5.86 billion from \$4.70 billion, and operating income decreased to \$1.28 billion from \$1.45 billion. 1Q22's adjusted earnings improved to \$1.30/share from \$1.26/share with the improvement coming from higher sales in the Electric Utilities & Infrastructure unit and rate case contributions from the Gas Utilities & Infrastructure unit. These positives were partly offset by higher O&M expense (including storm expenses) and fewer commercial renewable energy projects placed into service during 1Q22. DUK's overall 1Q22 results were helped by a lower tax rate (-1.7% vs. 8.2%) created by an increase in the amortization of excess deferred taxes.

SEGMENT RESULTS

ELECTRIC UTILITIES & INFRASTRUCTURE: Operating segment income decreased to \$723 million during 1Q22 from \$820 million during 1Q21. The lower results reflect charges related to the Indiana Supreme Courts ruling on coal ash during 2022. Adjusted segment income improved to \$896 million from \$820 million, equating to an increase of \$0.10/share. The improvement came from higher volumes/pricing (+\$0.24/share) and was partly offset by increased storm expenses (-\$0.07/share), O&M costs (\$0.04/share), and riders/other retail margin (-\$0.04/share).

Total consolidated electric sales grew 5.9% to 64,367 GWh from 60,783 GWh, when comparing the two quarters. The improvements came from higher wholesale/other sales (+8.8%) and retail sales (+5.3%) due to continued improvement, on a year-over-year basis, as the US economy rebounded from pandemic levels of economic activity.

GAS UTILITIES & INFRASTRUCTURE: 1Q22's operating segment income improved to \$254 million compared to \$245 million during 1Q21. Adjusted segment income improved to \$254 million from \$245 million. Results were driven by rate case impacts (+\$0.04/share), riders/other retail margin (+\$0.02/share) while being partly offset by higher taxes (-\$0.02/share), increased O&M expense (-\$0.02/share), and a rise in depreciation from a larger asset base (-\$0.01/share). 1Q21 results included charges from the cancellation of the Atlantic Coast Pipeline project.

Total gas sales increased 20.4% to 180.2 million dekatherms at the Piedmont Natural Gas local distribution company (LDC) and rose 0.4% to 37.3 million dekatherms at the Duke Energy Midwest LDC.



COMMERCIAL RENEWABLES: Both operating and adjustment segment income during 1Q22 declined to \$11 million vs. \$27 million during 1Q21, equating to a decrease of \$0.02/share. The decline came from fewer renewable energy projects put into service during 1Q22 (-\$0.06/share) and was partly offset by impacts from the Texas storm known as URI during 2021 (+\$0.04/share). When comparing the two quarters, renewable plant production increased 15.5% to 2,988 GWh from 2,588 GWh.

OTHER: Includes interest expense on holding company debt, other unallocated corporate costs, and results from DUK's captive insurance company. 1Q22's reported and adjusted income produced a net loss of \$170 million vs. a loss of \$130 million during 1Q21, equivalent to a decrease of \$0.04/share. The lower results came from a decrease on returns on investments (-\$0.03/share) and higher interest expense (-\$0.01/share).

RECENT DEVELOPMENTS:

DUK recently made its annual filings with the North Carolina Utilities Commission (NCUC) for costs connected to fuel, renewable energy, and energy efficiency programs in the state and is seeking to recover fuel costs (\$210 million) as part of its annual adjustment for fuel used to provide power in NC.

A 1.1 MW solar facility will soon be operational and producing power at Fort Bragg NC following a service energy contract with DUK and the prime contractor, Ameresco. The project also includes a 2-MW battery energy storage system.

DUK completed its first community solar site in Hardee County, FL, with a generating capacity of 75 MWs. It is part of the company's Clean Energy Connection, which totals 10 solar sites and provides 750 MWs of electricity. Piedmont Natural Gas opened its 13th compressed natural gas fueling station in Wilmington NC. The facilities are stationed in the company's three-state service territory.

Duke Energy Sustainable Solutions (DESS), a nonregulated unit of DUK, completed a campuswide renewable energy system in Hawaii which has the capacity to generate 6.4 GWhs of electricity for the University BYU-Hawaii in Oahu.

DUK filed its Carolina Carbon Plan with NCUC in a proposal whose aim is to achieve 70% CO2 emissions reduction by 2030 and carbon neutrality by 2050. The program offers a mix of solar, storage, natural gas, wind, and small modular nuclear generation, and energy efficiency programs to help DUK's customers reduce energy use.

An offshore wind lease was secured by DUK for the Carolina Long Bay offshore wind project, east of Wilmington NC, and could generate 1.6 GW of offshore wind energy production.

DESS announced the start of construction of 120-MW Jackpot Solar project in Twin Falls County, Idaho. It will be the largest solar facility in Idaho and is expected to be in commercial operation by year end 2022. The power generated from this facility will be purchased by Idaho Power in a 20-year power purchase agreement.



DUK is investing in two projects that will convert landfill gas from two NC landfills and convert it to renewable natural gas (RNG). One project is the Foothills Renewables, located in Caldwell County, and the other is Upper Piedmont Renewables in Person County. Estimates are each will produce about 500K dekatherms of RNG per year.

DUK made its annual filing with the Public Service Commission of South Carolina (PSCSC) for annual cost adjustments of fuel used in operations in the state. Under the proposal, a retail customer's monthly bill would rise by 8.3%, commercial's by 9.5%, and industrial's by 12.1%.

Piedmont Natural Gas filed a rate adjustment case in SC with the PSCSC to recover recent capital investments and update its operating costs through a rate case proceeding. If approved, it would go into effect on 10/1/22 and add about \$4/month to a typical residential bill.

OUR THOUGHTS

This stock is recommended for income/growth investors, given the current dividend yield of 3.8%, and the potential of forward earnings growth which could lead to dividend increases in the future. DUK's goals are to grow annual earnings by 5%-7% through 2025, reduce its CO-2 emissions 70% by 2030, and be carbon neutral by 2050. To this later point, DUK has increased its renewable energy assets (see RECENT DEVELOPMENTS section). Management recently provided 2022 adjusted earnings per share guidance of \$5.30-\$5.60/share and if this comes to fruition, then shareholders may see another dividend increase during 2H22. We continue to rate this stock a BUY based on potential earnings and dividend growth going forward. We are raising our target price to \$110/share, equating to 1.7x DUK's current book value of \$64.81/share.



Risks To Our Price Target

Failure of DUK to grow cash flow/earnings. There is no guarantee a move to renewable energy sources will benefit company operations. Declining earnings from its three operating units. Additionally, if DUK is successful in growing future earnings, there is no guarantee it will reach our price target. Rising interest rates, increasing fuel prices, falling electric rates, negative rate case decisions, adverse tax or legal issues, or rising operating costs could have a negative impact on our price target. A negative coal ash decision from regulators could adversely affect DUK's share price. Additionally, negative equity/credit markets, large selling volumes in DUK's stock, terrorist attacks, wars, geopolitical events, US political environmental issues, failure to comply with Sarbanes Oxley guidelines, or failure to maintain accepted accounting standards could be risks to DUK and our price target for its stock.

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Duke Energy
Condensed Consolidated Statements of Operations
unaudited
(in millions, except per share amounts)

	1Q21	2Q21	3Q21	4Q21	FY21	1Q22	2Q22e	3Q22e	4Q22e	FY22e
Operating Revenues:										
Regulated electric	\$5,219	\$5,258	\$6,495	\$5,347	\$22,319	\$5,933	\$5,518	\$6,587	\$5,469	23,507
Non-regulated electric/natgas/other	182	198	263	694	2,008	1,002	764	612	628	3,006
Regulated natural gas	749	302	193	197	770	197	288	204	243	932
Total Operating revenues	6,150	5,758	6,951	6,238	25,097	7,132	6,570	7,403	6,340	27,445
Operating Expenses:										
Fuel electric gen. & purchased power-reg	1,443	1,419	1,844	1,553	6,255	1,817	1,765	1,725	1,641	6,948
Cost of natural gas & coal sold	276	79	75	275	705	481	387	384	352	1,604
Operation, maintenance, & other	1,402	1,410	1,507	1,723	6,042	1,630	1,721	1,623	1,326	5,300
Depreciation & Amortization	1,226	1,207	1,265	1,292	4,990	1,320	1,129	1,364	1,378	5,191
Property & other taxes	353	349	371	316	1,389	392	394	363	324	1,473
Impairment charges		151	211	14	356	215	32	27	12	286
Total Operating expenses	4,700	4,591	5,273	5,173	19,737	5,855	5,428	5,306	5,033	21,622
Gains/losses sale of other assets (net)		2	9	2	13	2				2
Operating Income	1,450	1,169	1,687	1,067	5,373	1,279	1,202	2,097	1,307	5,885
Equity in earnings of unconsolidated affiliates	-17	9	22	14	28	25	14	6	12	57
Impairments/Gains on unconsol affiliates sales										
Other Income/Expenses	127	128	238	150	643	89	107	129	74	399
Total other income/expenses	110	137	260	164	671	114	121	135	86	456
Interest expense	535	572	581	592	2,280	587	589	596	598	2,370
Income from Cont Ops before Income Taxes	1,025	734	1,366	639	3,764	806	734	1,636	795	3,971
Income tax expense	84	36	90	18	192	14	88	245	119	466
Income from Cont Operations	941	698	1,276	657	3,572	820	646	1,391	676	3,533
Income (loss) from Discontinued Ops					7					
Net Income	941	698	1,276	657	3,579	820	646	1,391	676	3,533
Net Income/loss attributable to non-controlling interest	51	67	129	82	329	37	79	46	83	245
Income from disc. Operations				7		7				7
Net Income attributable to Duke Energy	992	751	1,366	732	3,802	818	725	1,437	759	3,739
Diluted EPS	\$1.25	\$0.96	\$1.79	\$0.93	\$4.94	\$1.08	\$0.94	\$1.87	\$0.99	\$4.88
Net Income from discon ops attributable shareholders										
Diluted EPS	\$1.25	\$0.96	\$1.79	\$0.93	\$4.94	\$1.08	\$0.94	\$1.87	\$0.99	\$4.88
Adjustments	\$0.01	\$0.19	\$0.09	\$0.01	\$0.30	\$0.22	\$0.20	\$0.11	\$0.04	\$0.57
Adjusted Diluted EPS	\$1.26	\$1.15	\$1.88	\$0.94	\$5.24	\$1.30	\$1.14	\$1.98	\$1.03	\$5.45

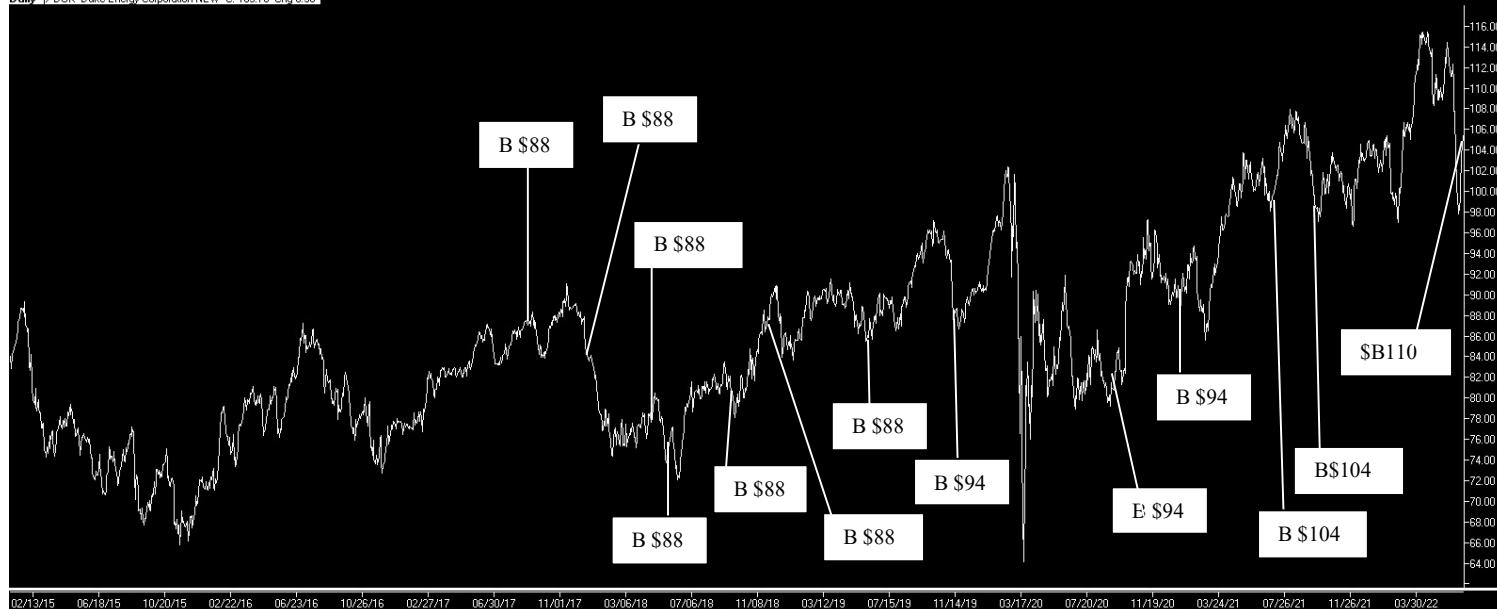


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Important Disclosures

Daily | DUK: Duke Energy Corporation NEW | C: 105.70 | Chg 0.50



6/28/22 Raise Price Target to \$110
 7/6/21 Raise Price Target to \$104
 11/13/19 Raise Price Target to \$94
 12/26/14 Raise Price Target to \$88
 12/6/13 Raise Price Target to \$76
 12/12/12 Raise Price Target to \$70
 12/5/11 Raise Price Target to \$66
 9/19/11 Raise Price Target to \$61.50
 9/23/09 Initiate Buy Rating & \$60 Target Price
 Ratings:
 Buy: B
 Hold: H
 Sell: S

\$110 price target equates to 1.7x book value/share of \$64.81/share

RISKS TO OUR PRICE TARGET: Failure of DUK to grow cashflow or earnings. There is no guarantee a move to renewable energy sources will benefit company profitability. Declining earnings from its' 3 operating units,. Additionally, if DUK is successful in growing future earnings,there is no guarantee it will reach our price target. Rising interest rates, increasing fuel prices, falling electric rates, negative rate case decisions, adverse tax or legal issues, or rising operating costs could have a negative impact on our price target. A negative coal ash decision from regulators could cause a decline in DUK's share price. Additionally, negative equity/credit markets, large selling volumes in DUK's stock, terrorist attacks, wars, geopolitical issues,US political/environmental issues, failure to comply with Sarbanes Oxley guidelines, or maintain accepted accounting standards could be risks to our price target.

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Analyst owns/controls family account containing shares of Duke Energy

Stock ratings used in this report are defined as follows:

- (1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (2) Hold – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (3) Sell – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.



The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 33.3%, (2) 66.7%, (3) 0%

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